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# Japan

# Dairy and Products

# Annual

# 2002

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**Report Highlights:** Japan's 2003 fluid milk output is forecast unchanged following a modest rebound in 2002. Fluid milk utilization for drinking is expected to increase in 2003, while processing use will likely decline. The NFDM surplus situation is expected to continue in 2003, even as production declines. Japan's butter production is forecast to fall by 6% in 2003. Butter imports under the current access are expected to continue in 2003. New specification standards for Japan's current access tender may open the door to U.S. butter sales to Japan. Cheese imports are expected to grow by 2% in 2003, supported by strong demand for natural cheese.

Includes PSD changes: Yes
Includes Trade Matrix: No
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**Fluid Milk Section**

**Japan’s 2003 Fluid Milk Output Forecast Unchanged Following Modest Rebound in 2002**

Japan’s total fluid milk production in 2003 is forecast unchanged at 8.35 million tons following a modest rebound in 2002. Strong output in Hokkaido, which accounts for more than 40% of total production, will offset declines in other regions of Japan. The modest increase in 2002 production is due to higher numbers of retained cows, increased per-cow production in response to higher Government subsidy payments for fluid milk for processing, and favorable weather conditions. (see JA2021) Post does not expect an increase in subsidy payments for fluid milk for processing in 2003 given the continued surplus of NFDM (see next section).

Japan’s 2003 fluid milk utilization is expected to grow for "drinking" use, projected up 1% (to 4.93 million tons), and to decline for "processing" use, projected down 1% (to 3.33 million tons). The expected reduction of fluid milk utilization for processing will trim domestic production of NFDM in 2003 (see next section). Strong consumer demand for milk drinks (containing a high percentage milk content) is expected to push raw milk utilization up in 2003. Solid demand for drinking milk (labeled as "100% Fluid Milk") is expected to continue in 2003. Because of this year’s strong fluid milk demand for drinking, dairy farmers have asked milk processors to increase the price for raw milk. [Note: Prices for fluid milk for "drinking" during 2002 have changed little from the previous year, averaging 90 - 100 yen per kilo.]

Post expects the number of cows in milk to decline slightly in 2003, reflecting the continued decline in Japan’s dairy farms. However, as in 2002, herd size on a per-farm basis is expected to rise slightly in 2003. (See table 1) As the market price for off-spring dairy calves (cross F-1 and Holstein steers for beef) recovers in 2002, older dairy cows will be liquidated and replenished. Japan’s on-going national progeny testing program is expected to help build new dairy herds in 2003.

Table 1. Japan’s Dairy Herd Inventory

Unit: 1,000 Heads/Farms

| | 1999 | 2000 | % Chg. | 2001 | % Chg. | 2002 | % Chg. |
|---|---|---|---|---|---|---|---|
| Inventory As of: | February | February | | February | | February | |
| Total Dairy Cow | 1,816 | 1,764 | -3% | 1,725 | -2% | 1,726 | 0% |
| Milking | 1,008 | 992 | -2% | 971 | -2% | 966 | -1% |
| Dry | 164 | 158 | -4% | 153 | -3% | 160 | 5% |
| Heifer | 645 | 615 | -5% | 601 | -2% | 599 | -0% |
| Total Dairy Farm | 35,400 | 33,600 | -5% | 32,200 | -4% | 31,000 | -4% |
| Cow Raised per Farm (head) | 51.3 | 52.5 | | 53.5 | | 55.7 | |
| | | | | | | | |

| | 1999 | 2000 | % Chg. | 2001 | % Chg. | 2002 | % Chg. |
|---|---|---|---|---|---|---|---|
| Inventory As of: | August | August | | August | | August | |
| Total Dairy Cow | 1,801 | 1,753 | -3% | 1,719 | -2% | NA | NA |
| Milking | 1,000 | 977 | -2% | 955 | -2% | NA | NA |
| Dry | 174 | 171 | -2% | 167 | -2% | NA | NA |
| Heifer | 628 | 605 | -4% | 598 | -1% | NA | NA |
| Source: Ministry of Agriculture, Forestry and Fisheries | | | | | | | |
| | | | | | | | |
| Number of Dairy Calves Born | | | | | | | |
| Unit: 1,000 Heads | | | | | | | |
| | 1999/2000 | 2000 | 2000/2001 | 2001 | Share 2001 | 2001/2002 | Share 2001 |
| | Aug. - Jan. | Feb. - Jul. | Aug. - Jan. | Feb. - Jul. | | Aug. - Jan. | |
| Dairy Cow | 152 | 142 | 164 | 146 | 32% | 156 | 34% |
| Dairy Steer | 176 | 160 | 179 | 164 | 36% | 177 | 39% |
| F1 Cross (Wagyu and Holstein) | 184 | 170 | 159 | 145 | 32% | 160 | 35% |
| Total Calves Born | 512 | 472 | 502 | 455 | 100% | 493 | 108% |

Source: MAFF
Note: Inventory figures as of August are yet to be released.

**Non Fat Dry Milk Section**

**Japan's Surplus of NFDM Expected to Continue in 2003**

Japan's production of NFDM in 2003 is projected to decrease 4% to 172,300 metric tons due to the expected decline in raw milk utilization in the processing sector. Despite the lower production forecast, the NFDM surplus situation is not expected to ease in 2003, even if ingredient demand for NFDM for food utilization strengthens.

Japan's NFDM imports are forecast at 30,000 metric tons in 2002, and at 29,000 metric tons in 2003 (used only for Japan's school lunch program and as an ingredient for livestock feed). Larger stocks of NFDM will make it difficult for the Japanese Government to meet its JFY 2002 UR market access commitment for dairy products. During the current Japanese Fiscal Year (JFY), which ends in March 2003, the Government may have little choice but to commit most of the JFY 2002 current access allocation (137,000 tons Raw Milk Equivalent) to import commodities other than NFDM.

The extent to which Japan's NFDM surplus is eliminated in 2003 hinges on whether demand for NFDM-based dairy products and beverages regains steam. Demand for processed drink products (using reconstituted milk) and ice cream has been particularly sluggish.

Table 2. Japan's Monthly Production and Ending Stock of Non Fat Dry Milk

| | | | | | | Unit: Metric Tons |
|---|---|---|---|---|---|---|
| | NFDM Production | | | NFDM Stocks | | |
| | 2001 | 2002 | % chg | 2001 | 2002 | % chg |
| Jan | 17,077 | 16,518 | -3% | 50,100 | 65,600 | 31% |
| Feb | 14,511 | 14,228 | -2% | 51,700 | 69,700 | 35% |
| Mar | 17,414 | 17,285 | -1% | 56,900 | 75,000 | 32% |
| Apr | 16,806 | 16,611 | -1% | 58,600 | 77,000 | 31% |
| May | 15,955 | 17,503 | 10% | 62,800 | 78,800 | 25% |
| Jun | 14,085 | 14,128 | 0% | 62,300 | 76,900 | 23% |
| Jul | 11,883 | 13,536 | 14% | 54,400 | 74,300 | 37% |
| Aug | 13,568 | 0 | -100% | 53,300 | 0 | -100% |
| Sep | 11,271 | 0 | -100% | 50,400 | 0 | -100% |
| Oct | 12,849 | 0 | -100% | 52,700 | 0 | -100% |
| Nov | 13,258 | 0 | -100% | 56,300 | 0 | -100% |
| Dec | 16,393 | 0 | -100.0% | NA | NA | NA |
| Year Total | 175,071 | NA | NA | | | |

Source: Agriculture & Livestock Industries Corporation (ALIC Monthly Data Book)

**Butter Section**

**Japan's Butter Production Expected to Fall in 2003; Imports of Butter Under Japan's Current Access Expected to Continue**

Japan's 2003 butter production is forecast to fall by 6% from the previous year to 83,000 MT, while demand is forecast to remain unchanged from this year's level of 89,000 MT. One factor which may impact demand in 2003 is imports of "medium-high fat fresh cream cheese" from Australia, which showed significant growth in 2002 after "high-fat fresh cream cheese" was virtually denied entry as "fresh cheese" due to a WTO HS committee ruling (see JA2021). Imports of butter are expected to rise up to 12 MT in 2003, reflecting butter imports under the current access.

On October 22, 2002, Japan announced a tender for 3,000 MT of butter (37,000 MT raw milk equivalent) under the JFY 2002 current access. Butter purchased under this tender will arrive early next year, replenishing stocks depleted during the year-end holiday period. Given the NFDM surplus situation, Post expects Japan to continue tendering for butter using the remainder of the current access allocation (100,000 MT raw milk equivalent, or 8,000 MT of butter) before the fiscal year ends on March 31, 2003.

Given expected imports under the current access, Post projects 2003 butter ending stocks to increase by 25% to 30,000 MT. Higher butter stocks combined with the continued NFDM surplus situation will likely complicate Japan’s decisions in allocating the JFY 2003 current access (April 2003 - March 2004).

**New Specification Standards for Current Access Tender Provides Glimmer of Hope for U.S. Butter**

New specification standards announced as part of the most recent current access butter tender may open the door for future purchases of high quality U.S. butter. According to trade sources, following purchases of New Zealand butter during the last fiscal year, importers are seeking to purchase higher quality "white" butter. The most recent tender has a specific category for "white" butter, with another for "yellow" butter.

[Note: Japan purchased 3,500 tons of butter under the JFY 2001 current access, all from New Zealand, which is reflected in CY2002 imports in PS&D table as imports that occurred between Jan. - Mar. 2002. - See JA2021. As for imports scheduled to occur under the JFY 2002 current access, the figures appear in the CY2003 PS&D table since imports are scheduled to occur in 2003.]

Trade sources report that high quality "white" U.S. butter may be purchased in upcoming tenders if prices are offered at lower levels. Australia is reportedly unlikely to become a viable supplier of this butter category because exportable supplies may be limited due to drought conditions. European suppliers may benefit from this new category given their price advantage over the United States.

Table 3. Japan’s Monthly Production and Ending Stock of Butter

| | | | | Unit: Metric Tons | | |
|---|---|---|---|---|---|---|
| | Butter Production | | | Butter Stocks | | |
| | 2001 | 2002 | % chg | 2001 | 2002 | % chg |
| Jan | 7,778 | 9,667 | 24% | 36,100 | 25,200 | -30% |
| Feb | 5,610 | 7,780 | 39% | 37,100 | 26,200 | -29% |
| Mar | 7,473 | 9,602 | 28% | 35,100 | 27,500 | -22% |
| Apr | 7,886 | 9,369 | 19% | 34,900 | 31,200 | -11% |
| May | 7,540 | 8,029 | 6% | 35,800 | 32,400 | -9% |
| Jun | 6,285 | 6,369 | 1% | 34,200 | 32,700 | -4% |
| Jul | 5,005 | 6,431 | 28% | 31,900 | 32,800 | 3% |
| Aug | 6,166 | NA | NA | 30,900 | NA | NA |
| Sep | 4,621 | NA | NA | 28,300 | NA | NA |
| Oct | 6,370 | NA | NA | 26,400 | NA | NA |

| | | | | | | |
|---|---|---|---|---|---|---|
| Nov | 6,634 | NA | NA | 23,700 | NA | NA |
| Dec | 8,169 | NA | NA | 21,400 | NA | NA |
| Year Total | 79,537 | NA | NA | | | |

Source: Agriculture & Livestock Industries Corporation (ALIC Monthly Data Book)

**Cheese Section**

**Import Demand for Natural Cheeses Forecast to Grow in 2003**

Following a 5% rebound in 2002, Japan's cheese imports are expected to grow by about 2% in 2003 to 216,000 MT. Expanding market demand for natural cheese for direct consumption accounts for much of the growth in imports. Demand for natural cheese under the pooled quota (raw material natural cheeses used for processed cheese products) will likely slow in 2003 due to lethargic demand for processed cheese.

Australia, New Zealand and some EU countries will remain as major suppliers of cheese for the Japanese market in 2003. Import demand for U.S. cheese is expected to change little from 2002, projected at about 4,000 - 4,200 MT. As the following table showing 2002 (January - August) imports demonstrates, Australia continues to be the biggest supplier of fresh cheese, which includes medium-fat cream cheese products used to fulfill ingredient demand by Japan's snack food, confectionary, and dessert industry (see table 4). Purchases of butter under the current access may trim demand for fresh cheese in 2003.

Growth prospects for imported cheese during 2003 may be capped by Japan's prolonged economic recession and deflationary price trends. Continued strengthening of U.S. and European currencies against the Japanese Yen could also impact imports of American and European natural cheese.

Table 4. Japanese Natural Cheese Imports by Country and by Type
(Period: January - August 2002)

| | Pooled Quota | % Chg. | Fresh | % Chg. | All Natural Total | % Chg. |
|---|---|---|---|---|---|---|
| Australia | 11,158 | -1% | 36,505 | 94% | 65,913 | 41% |
| New Zealand | 9,189 | -32% | 5,135 | -18% | 29,036 | -19% |
| France | 10 | 203% | 303 | 24% | 1,679 | 0% |
| Germany | 636 | -34% | 581 | 481% | 7,341 | 0% |
| Netherlands | 309 | 13% | 47 | -1% | 6,606 | 9% |
| Denmark | 893 | 41% | 2,114 | -8% | 7,307 | -10% |
| Norway | 1,278 | 16% | 1,027 | -23% | 3,700 | -6% |
| USA | 40 | NA | 1,399 | 6% | 2,800 | 18% |
| Canada | 1,030 | -45% | 0 | NA | 1,149 | -62% |
| All Countries | 25,294 | -16% | 48,949 | 44% | 131,959 | 9% |

| |
|---|
| Note1: All natural cheeses include sum of pooled, fresh and other natural cheeses not listed. |
| Note2: All countries include countries not listed. |

Source: Ministry of Finance (Publicized in Dairy Farm and Industry Press)
Note: The table does not include processed cheese imports.

Japanese Fluid Milk PS&D Table

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Japan | | | | | |
| Commodity | Dairy, Milk, Fluid | | | | (1000 HEAD)(1000 MT) | |
| | Revised | | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Cows In Milk | 971 | 971 | 966 | 966 | 0 | 965 |
| Cows Milk Production | 8302 | 8300 | 8350 | 8350 | 0 | 8350 |
| Other Milk Production | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Production | 8302 | 8300 | 8350 | 8350 | 0 | 8350 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 8302 | 8300 | 8350 | 8350 | 0 | 8350 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Fluid Use Dom. Consum. | 4943 | 4941 | 4900 | 4900 | 0 | 4930 |
| Factory Use Consum. | 3266 | 3266 | 3360 | 3360 | 0 | 3330 |
| Feed Use Dom. Consum. | 93 | 93 | 90 | 90 | 0 | 90 |
| TOTAL Dom. Consumption | 8302 | 8300 | 8350 | 8350 | 0 | 8350 |
| TOTAL DISTRIBUTION | 8302 | 8300 | 8350 | 8350 | 0 | 8350 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Japanese Non Fat Dry Milk PS&D Table

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Japan | | | | | |
| Commodity | Dairy, Milk, Nonfat Dry | | | | (1000 MT) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Beginning Stocks | 45 | 45 | 66 | 66 | 75 | 76 |
| Production | 175 | 175 | 185 | 180 | 0 | 172 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 29 |
| Other Imports | 53 | 53 | 40 | 30 | 0 | 0 |
| TOTAL Imports | 53 | 53 | 40 | 30 | 0 | 29 |
| TOTAL SUPPLY | 273 | 273 | 291 | 276 | 75 | 277 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 174 | 174 | 185 | 173 | 0 | 175 |
| Other Use, Losses | 33 | 33 | 31 | 27 | 0 | 26 |
| Total Dom. Consumption | 207 | 207 | 216 | 200 | 0 | 201 |
| TOTAL Use | 207 | 207 | 216 | 200 | 0 | 201 |
| Ending Stocks | 66 | 66 | 75 | 76 | 0 | 76 |
| TOTAL DISTRIBUTION | 273 | 273 | 291 | 276 | 0 | 277 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Japanese Butter PS&D Table

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Japan | | | | | |
| Commodity | Dairy, Butter | | | | (1000 MT) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Beginning Stocks | 33 | 33 | 21 | 21 | 25 | 24 |
| Production | 80 | 80 | 85 | 88 | 0 | 83 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 0 | 0 | 7 | 4 | 0 | 12 |
| TOTAL Imports | 0 | 0 | 7 | 4 | 0 | 12 |
| TOTAL SUPPLY | 113 | 113 | 113 | 113 | 25 | 119 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic Consumption | 92 | 92 | 88 | 89 | 0 | 89 |
| TOTAL Use | 92 | 92 | 88 | 89 | 0 | 89 |
| Ending Stocks | 21 | 21 | 25 | 24 | 0 | 30 |
| TOTAL DISTRIBUTION | 113 | 113 | 113 | 113 | 0 | 119 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Japanese Cheese PS&D Table

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Japan | | | | | |
| Commodity | Dairy, Cheese | | | | (1000 MT) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Beginning Stocks | 15 | 15 | 15 | 15 | 15 | 15 |
| Production | 33 | 34 | 33 | 34 | 0 | 34 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 202 | 202 | 212 | 212 | 0 | 216 |
| TOTAL Imports | 202 | 202 | 212 | 212 | 0 | 216 |
| TOTAL SUPPLY | 250 | 251 | 260 | 261 | 15 | 265 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 235 | 236 | 245 | 246 | 0 | 250 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 235 | 236 | 245 | 246 | 0 | 250 |
| TOTAL Use | 235 | 236 | 245 | 246 | 0 | 250 |
| Ending Stocks | 15 | 15 | 15 | 15 | 0 | 15 |
| TOTAL DISTRIBUTION | 250 | 251 | 260 | 261 | 0 | 265 |
| Calendar Yr. Imp. from U.S. | 0 | 4 | 0 | 4 | 0 | 4 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |